

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

**Concession Audit of
Wells Fargo Bank, N. A.**

GOVERNMENT
DOCUMENTS DEPT

JUN 26 2009

SAN FRANCISCO
PUBLIC LIBRARY



June 25, 2009

CONTROLLER'S OFFICE CITY SERVICES AUDITOR

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits.

Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Deborah Gordon, Audit Manager
Edvida Moore, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller
Monique Zmuda
Deputy Controller

June 25, 2009

San Francisco Airport Commission
P.O. Box 8097
San Francisco, CA 94128

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the audit of Wells Fargo Bank, N. A. (Wells Fargo). Wells Fargo has an agreement with the Airport Commission of the City and County of San Francisco (City), which was originally through February 16, 2008, to provide automated teller machine (ATM) services on Airport property. The lease has two one-year options. The Airport Commission has exercised both options, extending the term of the lease with Wells Fargo through February 16, 2010.

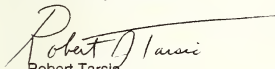
Reporting Period: March 1, 2007, through February 29, 2008

Fees Paid: \$413,926

Results:

- Wells Fargo correctly paid \$413,926 in fees for the reporting period.
- Wells Fargo did not provide actual daily transaction records of all ATM activity, to enable us to determine the accuracy of its reported ATM revenues and the adequacy of its internal controls over ATM transactions.
- Wells Fargo did not submit certified annual reports of gross ATM revenues to the Airport on a lease-year basis, as required by the lease agreement.

Respectfully submitted,


Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Budget Analyst
Civil Grand Jury
Public Library

Page intentionally left blank.

INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of City-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

Through the San Francisco Airport Commission (Airport Commission), Wells Fargo Bank, N. A. (Wells Fargo) has a lease with the City and County of San Francisco to provide automated teller machine (ATM) services at the San Francisco International Airport (Airport). The lease, which commenced March 1, 2007, allows Wells Fargo to provide these services at approximately 10 different locations. During the period under review, Wells Fargo's ATM services were provided at nine of those locations.¹ The lease term is five years, with two one-year options. The Airport Commission has exercised both options, extending the term of the lease with Wells Fargo through February 16, 2010. The lease requires Wells Fargo to pay the Airport a base rent plus percentage rent and transaction rent.² The base rent is calculated at one-twelfth of the required minimum annual guarantee (MAG). During the audit period, the base rent was \$26,192 monthly.

Scope and Methodology

The purpose of this audit was to determine if Wells Fargo complied with the reporting and payment provisions of its lease. Our audit covered the period from March 1, 2007, through February 29, 2008.

To conduct the audit, we examined the applicable terms of the lease and the adequacy of Wells Fargo's procedures for collecting, recording, summarizing, and reporting its gross ATM fees payable to the Airport. To determine whether

¹ At the Airport's request, Wells Fargo took one of its ATMs offline to allow for renovations to the United Airlines terminal.

² For each completed transaction, Wells Fargo charges non-Wells Fargo customers a surcharge of \$1.50 for withdrawing cash from its ATMs. Percentage rent is 33 percent of each surcharge. Transaction rent is \$0.10 for each successfully completed transaction that is not subject to percentage rent.

Wells Fargo accurately reported its gross ATM fees payable to the Airport, we compared its reported gross ATM fees payable to those recorded in its internal monthly summary records for all months of the audit period. We also determined whether Wells Fargo had any outstanding payments due to the Airport for the audit period.

Wells Fargo staff informed us that providing detailed daily transaction records requires going back to the original data and reprocessing it in order to create a customized summary. They stated that they would need a strong business case to justify the effort and cost to do this. Therefore, Wells Fargo did not provide us with the documents needed to conduct sample testing of the monthly transaction records.

Wells Fargo also stated that its policy restricts non Wells Fargo team members from viewing the operations of its computers, and that Wells Fargo is not obligated to provide such access under its lease with the Airport. We were therefore not permitted to access Wells Fargo's electronic transaction data. Therefore, we used an alternative method of determining the adequacy of internal controls over the processing of ATM transactions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Except for the limitation placed by Wells Fargo on our access to transaction data mentioned above, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Wells Fargo Did Not Provide Detailed Support for Its Reports

From March 1, 2007, through February 29, 2008, Wells Fargo Bank, N. A. (Wells Fargo) correctly paid \$413,926 in fees to the Airport. As mentioned in the previous scope and methodology section of this report, the auditors determined through alternative tests of internal controls that Wells Fargo's monthly fee summaries could be relied on for accuracy.

However, Wells Fargo on did not provide us with documents, such as daily transaction records, needed to support the ATM fee revenues upon which it based its monthly payments to the Airport. The lease agreement states that Wells Fargo shall provide separate and accurate daily records of all ATM activity at the premises, including, without limitation, detailed records of all ATM customer use.

Wells Fargo did provide an extract from its mainframe ATM transaction file, and a copy of its monthly data file to support its monthly summaries for the month of September 2008, which is outside of the audit period. Wells Fargo staff stated that obtaining documents for earlier months would be cumbersome, time-consuming, and not cost-effective.

Wells Fargo Expressed Concern About Giving Auditors Access to Detailed Daily Transaction Records

The information that Wells Fargo provided for September 2008 was not sufficient to test the adequacy of internal controls over the processing of ATM transactions. Wells Fargo's staff expressed concern that providing the required documentation would not only allow us access to Wells Fargo's proprietary computer data, but also compromise its customers' personal records.

We Performed Alternative Tests of Internal Controls

Since Wells Fargo did not provide the requested daily transaction records, we were unable to conduct a detailed test of internal controls over the processing of ATM transactions. To determine the extent to which we could rely on Wells Fargo's calculation of fees due to the Airport, we used alternate procedures. These alternate procedures included the following steps:

- Obtaining and reviewing Wells Fargo's description of its internal controls over the processing of ATM transactions.

- Recalculating, for September 2008, summary totals contained in the data access files for such criteria as transaction volume, volume by customer type, and volume by transaction type.
- Tracing totals for each ATM transaction type to the September 2008 monthly report that Wells Fargo had submitted to the Airport.

We Reviewed Reports on the Bank's Internal Controls From Sources Outside of Wells Fargo

To gain further assurance that we could rely upon Wells Fargo's system of internal controls over its ATM processes, we reviewed several documents from sources outside the bank.

One of the documents that we reviewed was Wells Fargo's Form 10-K filing with the Securities and Exchange Commission, dated December 31, 2007. Wells Fargo's Form 10-K discusses the various regulatory authorities to which its Parent Bank Holding Company (BHC) is subject. These include: the BHC Act; the Board of Governors of the Federal Reserve System; the Securities Acts of 1933 and 1934, and the Federal Deposit Insurance Corporation. Also mentioned is the Sarbanes-Oxley Act of 2002, which requires Wells Fargo's management to evaluate its internal controls over financial reporting.

We also reviewed Wells Fargo's audited financial statements. Included in the statements is a report on internal controls by KPMG LLP, the bank's independent public accounting firm. The report states: "In our opinion, Wells Fargo maintains, in all material respects, effective internal control over financial reporting as of December 31, 2008."

As a result of our review of the documents referenced above, we have determined that Wells Fargo receives scrutiny and oversight by regulatory agencies and other oversight bodies. Although we found no evidence of oversight of the bank's operation at the level of Airport lease compliance, we consider oversight of its overall internal controls to provide support for our alternative tests of internal controls, which were conducted on data after the audit period and at a summary, rather than transaction, level.

Wells Fargo's Certified Report of ATM fees Did Not Comply With Lease Terms

Wells Fargo reported annual ATM fees on the basis of a fiscal period ended January 31, 2007. However, the lease requires Wells Fargo to report its ATM fees to the Airport on a lease year basis. The lease defines a lease year as beginning on the minimum annual guarantee (MAG) adjustment date (March 1st of one calendar year), and expiring on the day before the subsequent MAG adjustment date (i.e., the last day of February in the following calendar year).

Reporting gross ATM fees to the Airport over a different period than a lease year could significantly delay the verification of revenue amounts reported to the Airport. For instance, if an incorrect amount were reported in February 2009, a certified annual report would not reveal this error until after the end of the following lease year (i.e., March 2010).³ In this case, a certified annual report submitted to the Airport on a lease-year basis would reveal the error no later than the end of May 2009.

Recommendations

The Airport should take the following actions:

1. Ensure that Wells Fargo Bank complies with the terms of its lease. As an alternative, the Airport could decide to amend the lease to include only those terms with which both Wells Fargo and that the Airport agree, and that would still protect the City's interest.
2. Require Wells Fargo Bank to prepare its certified annual report of gross ATM revenues on a lease-year basis.

³ The lease requires that the certified annual reports be submitted to the Airport within 90 days of the end of the prior lease year.

Page intentionally left blank.

ATTACHMENT A: AIRPORT'S RESPONSE



San Francisco International Airport

May 7, 2009

VIA EMAIL

Mr. Robert Tarsia
Deputy Audit Director
Office of the Controller
City and County of San Francisco
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

PO Box 8097
San Francisco, CA 94128
Tel: 415 3621 5099
Fax: 415 3621 5005
www.auditsfo.com

Reference: Automated Teller Machines in the Domestic Terminals Lease No. 02-0158 between the City and County of San Francisco, through its Airport Commission, and Wells Fargo Bank, N.A.

Dear Mr. Tarsia:

The San Francisco International Airport ("Airport") is in receipt of the Audit Recommendation from City Services Audit Division for its audit of the Automated Teller Machines in the Domestic Terminals Lease No. 02-0158 between the City and County of San Francisco, through its Airport Commission, and Wells Fargo Bank, N.A. ("Tenant"). The following is the Airport's response to the Audit Report findings:

1. **Ensure that Wells Fargo Bank complies with the terms of its lease. As an alternative, the Airport could decide to amend the lease to include only those terms with which both Wells Fargo and the Airport agree, and that would still protect the City's interest.** The Airport will inform tenant that failure to retain detailed transaction records and make them available for inspection are in direct violation of the Lease, and failure to submit said records are subject to fines per Section 15 [Fines].
2. **Require Wells Fargo Bank to prepare its certified annual report of gross ATM revenues on a lease-year basis.** The Airport agrees with this statement. Airport has requested reports be submitted per Lease requirements.

Thank you for your staff's work on this audit. Please do not hesitate to call if you have any questions.

Sincerely,

Cheryl Nashir
Associate Deputy Airport Director
Revenue Development and Management

cc: Cesar Sanchez
Edvida Moore
John Reeb

AIRPORT
COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO

GARYN WYSON
MAJONE

TERRY MAZZOLA
PRESIDENT

LINDA S. KRAYTON
VICE PRESIDENT

CARYL ITO

ELEANOR JONES

RON HARVEY J. GIBB/ALAN ME

JOHN L. MARTIN
AIRPORT DIRECTOR

Recommendation	Responsible Agency	Response
<p>1. Ensure that Wells Fargo Bank complies with the terms of its lease. As an alternative, the Airport could decide to amend the lease to include only those terms with which both Wells Fargo and that the Airport agree, and that would still protect the City's interest.</p>	<p>Airport</p>	<p>The Airport will inform tenant that failure to retain detailed transaction records and make them available for inspection are in direct violation of the Lease, and failure to submit said records are subject to fines per Section 15 [Fines].</p>
<p>2. Require Wells Fargo Bank to prepare its certified annual report of gross ATM revenues on a lease-year basis.</p>	<p>Airport</p>	<p>The Airport agrees with this statement. Airport has requested reports be submitted per lease requirements.</p>

ATTACHMENT B: WELLS FARGO'S RESPONSE

June 12, 2009

VIA EMAIL

Mr. Robert Tarsia
Deputy Audit Director
Office of the Controller
City and County of San Francisco
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Audit of Wells Fargo ATM Lease payments: Automated Teller Machines in the Domestic Terminals Lease No. 02-0158 between the City and County of San Francisco, through its Airport Commission, and Wells Fargo Bank, N.A.

Dear Mr. Tarsia:

Wells Fargo Bank, N.A. ("Wells Fargo") operates nine (9) ATMs at the San Francisco International Airport ("Airport") under the lease agreement dated January 16, 2003 (the "Lease"). The City of San Francisco City Services Auditor ("Auditor") recently completed an audit of the fees paid by Wells Fargo under the Lease. The Auditor summarized its findings in a letter dated May 13, 2009 from Robert Tarsia to the San Francisco Airport Commission. The Airport responded to the findings in a letter dated May 7, 2009 from Cheryl Nashir to Robert Tarsia. This letter responds to the Auditor's findings and the Airport's response.

Auditor finding:	"Wells Fargo did not provide daily transaction records of all ATM activity"
Auditor Recommendation:	"Ensure that Wells Fargo Bank complies with the terms of the lease. As an alternative, the Airport could decide to amend the lease to include only those terms with which both Wells Fargo and the Airport agree, and that still would protect the City's interest."

Section 4.6 (a) of the lease expressly states "The intent and purpose of the provisions of this section are that Tenant shall keep and maintain records which will enable City and City's Controller to ascertain, determine and audit, if so desired by City, clearly and accurately, Gross Revenues achieved, and the adequacy of the form and method of Tenant's reporting thereof". To comply with this section of the lease, Wells Fargo provided the following reports which do provide the means to validate and ascertain the accuracy and adequacy of the amount of lease payments.

1. Profit and Loss Data - 7/17/08
2. October 07 Rent Transaction Report - 7/23/08
3. 2007 - 2008 Monthly Summary Reports - 7/31/08
4. Certified Annual True Up Report - 7/31/08
5. ATM Transaction Rent Process Flow - 8/7/08 & 8/14/08

6. Transaction Rent Process as performed by Lease Administrator - 8/7/08 & 8/14/08
7. Feedback to Auditor Edvida Moore's "comments" on the description of the event that occurred in February 07 - 8/14/08
8. March '07 & June '07 Monthly Transaction counts along with formulas used to calculate such rents - 9/25/08

Although Wells Fargo did not provide "daily" transaction reports, the monthly transaction reports and other documentation provided gave the Auditor the ability to verify whether Wells Fargo had paid the required amount of fees under the Lease.

As recommended by the auditor, Wells Fargo Bank would like to work with the Airport to amend the terms of the lease to delete the necessity of "daily records of all ATM activity" and replace with "accurate monthly reports of all ATM activity" or explore the possibility of paying a flat rate rather than a transaction based rent. The calculation of transaction based rents is a manual process and is extremely labor intensive.

Wells Fargo would like to simplify this monthly manual process by proposing to convert the transaction based rent to a monthly fixed rent based on recent historical averages. An annual review process could also be instituted that would provide the vehicle to review volumes and adjust payment if necessary. Converting to fixed rents would allow Wells Fargo to automate its accounts payable process with the added benefit to the SFO Airport Commission of ensuring a guaranteed fixed rental income and reduce the time and money in ensuring proper payments.

Auditor Finding:	"Wells Fargo did not submit certified annual reports of gross ATM revenues to the airport on a lease year basis."
Auditor Recommendation:	"Require Wells Fargo to prepare its certified annual report of gross ATM revenues on a lease-year basis."

As recommended by the auditor, Wells Fargo Bank will begin to prepare the certified annual report of gross ATM revenues on a lease-year basis, from March 1st through Feb 28th each year. In prior years, the certified annual reporting periods were Feb 2004-Jan 2005, Jan 2005- Jan 2006, Jan 2006-Jan 2007, Jan 2007-Jan 2008, Jan 2008-Feb 2009.

Wells Fargo values its relationship with the Airport and look forward to continuing our relationship for many years to come. Please contact Lynn Pooley (541-923-4967) should you be interested in amending the lease.

Sincerely,

Laura A. Crabb, SVP
Wells Fargo Bank, N.A.

Cc: Edvida Moore
John Reeb

ATTACHMENT C: AUDITOR'S RESPONSE

The auditors do not agree with statements made by Wells Fargo in the previous attachment regarding the following audit finding:

Auditor Finding:	"Wells Fargo did not provide daily transaction records of all ATM activity"
Auditor Recommendation:	"Ensure that Wells Fargo Bank complies with the terms of the lease. As an alternative, the Airport could decide to amend the lease to include only those terms with which both Wells Fargo and the Airport agree, and that still would protect the City's interest."

The response states that, "Although Wells Fargo did not provide 'daily' transactions reports, the monthly transaction reports and other documentation provided gave the Auditor the ability to verify whether Wells Fargo had paid the required amount of fees under the Lease." The response also notes that Wells Fargo provided many documents to the auditors during the course of the audit. However, none of the documents provided enabled the auditors to determine the accuracy of the reported number of transactions by transaction type, which was the basis for the monthly reports on which Wells Fargo paid its fees to the Airport for the audit period. This information was necessary to substantiate gross revenues achieved, as required by section 4.6 (a) of the lease that Wells Fargo entered into with the Airport.

